

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

200 W. Washington, Suite 301
Indianapolis, IN 46204
(317) 233-0696
<http://www.in.gov/legislative>

FISCAL IMPACT STATEMENT

LS 6289

BILL NUMBER: HB 1029

NOTE PREPARED: Nov 28, 2005

BILL AMENDED:

SUBJECT: College Savings Plan Deduction.

FIRST AUTHOR: Rep. Buell

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: ☒ **GENERAL**
☒ **DEDICATED**
FEDERAL

IMPACT: State & Local

Summary of Legislation: The bill provides that up to \$2,000 in contributions to an Indiana College Choice 529 Investment Plan may be deducted from adjusted gross income.

Effective Date: January 1, 2007.

Explanation of State Expenditures: The Department of State Revenue (DOR) would incur some administrative expenses relating to the revision of tax forms, instructions, and computer programs to incorporate the deduction proposed in this bill. The DOR's current level of resources should be sufficient to implement these changes.

Explanation of State Revenues: *Summary:* The deduction would reduce state Adjusted Gross Income (AGI) Tax liabilities for individual taxpayers who make contributions to Indiana College Choice 529 Investment Plan accounts. The revenue loss due to this bill could potentially total about \$290,000 in FY 2008, with the revenue loss estimated to increase by about 5% annually thereafter.

Background Information: The bill establishes an AGI Tax deduction for individual taxpayers who make contributions to an Indiana College Choice 529 Investment Plan account for a dependent. The deduction is equal to the lesser of either the taxpayer's contribution to the account during the taxable year or \$2,000. The bill also limits the maximum deduction for joint filers to \$2,000 annually. For a taxpayer claiming the full \$2,000 deduction, this would effectively reduce his or her annual income tax liability by \$68. Since the deduction is effective beginning in tax year 2007, the fiscal impact would begin in FY 2008. Eighty-six percent of the revenue from the AGI Tax on individuals is deposited in the state General Fund, and 14% of the revenue

is deposited in the Property Tax Replacement Fund.

The estimates are based on account and contribution totals for the Indiana College Choice Program. In 2004, approximately 2,096 Indiana account holders contributed in excess of \$2,000. A total of 1,375 Indiana account holders contributed between \$1,000 and \$2,000, with the average contribution totaling about \$1,337; and 5,473 Indiana account holders contributed less than \$1,000, with the average contribution totaling about \$239. Had the \$2,000 deduction existed in tax year 2004, deductible contributions could have totaled about \$7.3 M, with a tax impact of about \$250,000. Based on account information from prior years, the estimate for tax year 2007 (the first year of the proposed deduction) assumes that deductible contributions grow by about 5% annually. The impact of the deduction could potentially be lower depending upon the number of accounts where the beneficiary is not a dependent of the owner.

Explanation of Local Expenditures:

Explanation of Local Revenues: Because the deduction for college savings contributions would serve to decrease taxable income, counties imposing local option income taxes (CAGIT, COIT, and/or CEDIT) may, as a result, experience an indeterminable decrease in revenue from these taxes. Based on the potential statewide impact of the deduction, the revenue impact to any one county likely will be minimal.

State Agencies Affected: Department of State Revenue.

Local Agencies Affected: Counties with local option income taxes.

Information Sources: Susan Loftus, Indiana Education Savings Authority, (317) 232-5259.

Fiscal Analyst: Jim Landers, 317-232-9869.